



THE OFFICE OF
**SMALL CREDIT UNION
INITIATIVES**

Committed to small credit union success.

Maximizing the Low Income Designation

February 2015

National Credit Union Association
The Office of Small Credit Union Initiatives

1775 Duke Street, Alexandria VA 22314
www.ncua.gov

Table of Contents

<i>Introduction</i>	2
<i>The Low Income Designation</i>	3
<i>Benefits of the Low Income Designation</i>	3
• Eligible for NCUA Grants	3
• Eligible for Low Interest Rate Loans	3
• Eligible for OSCUI Consulting Services	4
• Ability to Accept Nonmember Deposits from any Source	4
• Raise Supplemental Capital that Counts as Net Worth.....	5
• Member Business Loan Exception	5
• Access to Resources from Other Federal Government Agencies	5
<i>Serving the Low Income Member</i>	6
• General Profile of Products and Services Offered by LIDs	7
• Products and Services	8
• Small Dollar Lending.....	8
<i>Qualifying for the Low Income Designation</i>	9
• Office of Consumer Protection’s Automated Geocoding Tool.....	9
• Sampling Procedures	10
• Other Methods of Qualifying for the LID.....	10
<i>What if we Fall a Little Short of the Majority Threshold?</i>	10
<i>Resources</i>	11
• NCUA Rules and Regulations Section 701.34	11
• Low Income Designation Fact Sheet	11
• Low Income Designation Webinars and Videos.....	11

Introduction

Credit unions are unique depository institutions created not for profit but to serve their members as credit cooperatives. Like banks credit unions offer a wide variety of financial products and services, but what makes credit unions different is who owns them. Banks are owned by their stockholders and profits are shared among the owners – the stockholders. On the other hand credit unions are owned by their members and profits are also shared among the owners – the members of the credit union.

Credit unions serving predominately low income member/owners face unique challenges in meeting the special needs of this segment of the population. They are often required to provide labor intensive products and services. Finding ways to supply quality financial services to low income individuals is no small task and in many cases may be more expensive.

NCUA's low income designation (LID) is a significant recognition available to credit unions that serve a majority low income members. The LID provides special legislative benefits and regulatory relief to help credit unions more effectively serve their member/owners. This paper describes the benefits of the low income designation, discusses the challenges and ways to better serve low income members, provides guidance on obtaining the low income designation and includes links to resources for more information.

The Low Income Designation

Let's start with what the low income designation does NOT do. The low income designation:

- Does NOT change your charter type
- Does NOT expand your field of membership or change who is eligible for credit union service
- Does NOT subject the credit union to more regulatory scrutiny or more frequent visits from your examiner
- Does NOT require additional reporting
- Does NOT need to be advertised
- Carries NO stigma, it simply means most of your members are low income
- Has NOTHING to do with the credit union's income level

Simply put the low-income designation (LID) is a recognition available to credit unions that predominately serve low income members. The LID entitles credit unions to legislated benefits and special regulatory relief. A credit union qualifies for the low income designation when a majority of its members (50 percent + one member) meet the low income threshold defined in the NCUA Rules and Regulations. [Click here](#) to advance to the section of this paper that outlines how to obtain the low income designation.

Credit unions retain the low income designation for as long as they meet the criteria required to obtain it. If NCUA determines a credit union no longer meets the criteria for the designation NCUA will notify the credit union in writing and allow the credit union a period of up to five years to requalify as low income.

Benefits of the Low Income Designation

LID credit unions have access to benefits designed to help them effectively serve their members most of whom are recognized as having challenges accessing mainstream financial products and services. The main benefits of the low income designation for federally chartered credit unions are outlined below. State chartered low income designated credit unions may not be afforded some of the benefits listed below if laws in their state do not allow these benefits.

- **Eligible for NCUA Grants**

LID credit unions are eligible for NCUA grants. Grant funding rounds are typically held once or twice a year, but grants for urgent needs are available year round. [Click here](#) for up-to-date information and grant application material.

- **Eligible for Low Interest Rate Loans**

LID credit unions are eligible for low interest rate loans through NCUA's Community Development Revolving Loan Fund (CDRLF). The purpose of the loan program is to

assist LID credit unions in providing basic financial services and stimulating economic activities in the communities they serve including but not limited to:

- Development of new products or services for members including new or expanded share draft or credit card programs;
- Partnership arrangements with community based service organizations or government agencies;
- Loan programs including but not limited to, micro business loans, payday loan alternatives, education loans, and real estate loans;
- Acquisition, expansion or improvement of office space or equipment, including branch facilities, ATMs, and electronic banking facilities;
- Operational programs such as security and disaster recovery, and
- Investing in U.S. Treasury Securities.

NCUA will consider other proposed uses of funds that it determines are consistent with the purpose of the loan program and the requirements of the regulations.

Generally loans are limited to \$300,000 with a maturity of five years or less, however, NCUA will consider larger funding requests under certain circumstances. Loan program requirements and terms can change annually; [click here](#) for up-to-date information including the latest terms and conditions, a sample loan agreement, a sample promissory note and a loan application.

- **Eligible for OSCUI Consulting Services**

NCUA's Office of Small Credit Union Initiatives offers free consulting services to groups seeking to charter a credit union and small (based on the current NCUA definition), newly chartered (less than 10 years old), minority, and LID credit unions. Consulting service is delivered by Economic Development Specialists on a broad range of operational and strategic issues. Visit our webpage for more information on the [OSCUI Consulting Program](#) and to access the consulting nomination form.

- **Ability to Accept Nonmember Deposits from any Source**

All credit unions are able to accept limited amounts of nonmember deposits from public units and other credit unions, but credit unions with the low income designation can accept nonmember deposits from any source (including local banks, and individuals or groups that share the credit union's mission). They are not limited to public units and other credit unions for nonmember deposits. The amount of nonmember deposits they can accept is limited, as outlined in [Part 701.32 of the NCUA Rules and Regulations](#), to 20 percent of shares or \$3 million, whichever is greater, unless a larger amount is approved by the Regional Director.

- **Raise Supplemental Capital that Counts as Net Worth**

Low income designated credit unions can raise supplemental “secondary capital” that can under certain conditions, count as net worth. Secondary Capital is an uninsured account best described as a “subordinated” loan. In the event of liquidation, secondary capital claims are subordinate to all other claims on the assets of the credit union, including claims of shareholders, creditors and the National Credit Union Share Insurance Fund. [Part 701.34 of the NCUA Rules and Regulations](#) outlines secondary capital requirements. Key points to consider are:

- Secondary capital is uninsured and at risk. Each investor must execute a disclosure to this effect.
- The credit union must have a written secondary capital plan approved by the Regional Director prior to accepting secondary capital accounts.
- Minimum five year term.
- The amount of secondary capital that can be counted as net worth declines 20% each year for the last five years until maturity.
- The portion of secondary capital that no longer counts as net worth may only be redeemed with written approval of NCUA.
- Secondary capital can be accepted from members and non-members, but must be from a “non-natural” person.

For guidance and more information on secondary capital view OSCUI’s [Will Secondary Capital Work for You?](#) webinar.

- **Member Business Loan Exception**

LID credit unions are not subject to the general aggregate limitation on member business loans (MBL) which is the lesser of 1.75 times net worth or 12.25 percent of total assets. Refer to [Part 723 of NCUA Rules and Regulations](#) for detailed information on MBLs [Part 723.16](#) of the regulation sets the general aggregate limit and [Part 723.17](#) makes the exception for LID credit unions.

The NCUA Board may exempt federally insured state chartered credit unions in a given state from NCUA's member business loan rule if NCUA approves the state's rule. State chartered credit unions should contact their regulator for guidance.

- **Access to Resources from Other Federal Government Agencies**

Often LID credit unions can access resources of other federal government agencies such as:

Community Reinvestment Act - LID credit unions can use their low income status to obtain grants or other assistance from banks that provide the assistance to help meet their Community Reinvestment Act (CRA) requirement. [Click here](#) to access a

bank's CRA ratings and [click here](#) for contact information on your local FDIC Community Affairs Officer who can provide further guidance.

U.S. Department of the Treasury Community Development Financial Institutions (CDFI) Fund - CDFI provides financial assistance in the form of grants, capital reserves, nonmember deposits, and loans; and technical assistance for a wide range of purposes including but not limited to:

- purchasing equipment,
- paying for consulting or contracting services,
- paying the salaries and benefits of certain personnel, and
- training staff or board members.

Generally credit unions must obtain “certification” from CDFI to partake in their programs, and having the low income designation helps credit unions meet one of the certification requirements. Access the [CDFI Fund Website](#) for additional information.

Assets for Independence (AFI) – administers the federal Individual Development Account (IDA) program run by the U.S. Department of Health and Human Services Administration for Children and Families, Office of Community Services. Target credit union participants are LID or CDFI certified credit unions. Access the [AFI Fact Sheet](#) for additional information.

For more details on the benefits of the low income designation view our [Benefits of a LID Credit Union](#) webinar.

Serving the Low Income Member

Serving low income members requires a solid business plan with appropriate measures to mitigate risk. Lower income individuals have needs that are often not met by traditional financial institutions. Many lower income individuals do not have strong credit profiles and some have no credit profile at all. They may also have one or more of the following circumstances or characteristics:

- Unsteady employment (often temporary jobs with long hours);
- Part-time employment with multiple jobs or side businesses;
- Unstable residency (often rent or live in public or subsidized housing);
- No health insurance;
- Lack of affordable day care;
- Receive supplemental security income or social security disability benefits;
- Frequently English is a second language;
- Lack of a regular banking relationship;
- Low share account balances;
- Need for small dollar loans;

- Limited financial resources; and
- A need for labor intensive services (e.g. money orders, financial education and/or counseling, check cashing)

LID credit unions must take these challenges into consideration when designing share and loan products for their members. While LID credit unions are not restricted in their product and service offerings and can provide any product or service that a non-LID credit union can provide, savvy LID credit unions typically offer products and services designed to help members rebuild or establish credit. Refer to OSCUI's [Strategic Uses of the Low Income Designation](#) webinar for specific strategies credit unions can employ to meet the needs of their low income members.

• **General Profile of Products and Services Offered by LIDs**

The LID credit union typically offers many of the traditional financial products and services offered by non-LID credit unions - and more. LID credit unions tend to offer products that are smaller in terms of dollars but essential in terms of need for the lower income members. OSCUI's webinar [Profiling Products and Services for Underserved Members](#) provides case studies from credit unions that offer an array of products and services tailored to their low income members.

Share (savings) products - Credit unions serving low income members are accustomed to offering share products that are labor intensive. Many members may not have access to direct deposit or share draft accounts resulting in increased teller transactions and office expenses. Share accounts often have small minimum balance requirements, and account balances are often low and need frequent monitoring.

However, not all members of a LID credit union are low income, therefore many LID credit unions also offer share products meeting the needs of the non-low income member including draft accounts, share certificates, and even money market accounts and individual retirement accounts to maintain the share base.

Loan Products - LID credit unions offer a wide array of loan products to meet the needs of the entire membership. Generally traditional products like auto loans and personal loans are offered. Larger LID credit unions may offer real estate loans if appropriate. However, loan products offered to meet the needs of the lower income members tend to be smaller in nature with shorter repayment terms.

A LID credit union requires a sound and tactful collection program. Delinquencies tend to be higher as many members fall behind on their payments. However, loan losses are not necessarily as high. Often low income members build a relationship with their credit union and want to maintain it so they can continue to borrow at a lower cost and avoid predatory lenders. Many of these members need that friendly reminder to make their payments to the credit union. Risk based pricing where loans are priced according to risk helps the credit union offset collection costs on higher risk loans while allowing it to offer an attractive loan rate to their lower risk borrowers.

- **Products and Services**

Below is a list of products and services typically offered by LID credit unions to meet their low income member's financial needs:

Capacity Building Services

- Financial education
- One-on-one or group financial counseling
- Free tax preparation
- Bilingual services

Share Products and Services

- Prepaid debit cards or ATM cards
- Second chance share drafts (for past problem accounts)
- Low balance account requirements
- Low-cost money transmission services
- International remittances
- Money orders
- Individual development accounts

Loan Products

- Share secured loans
- Small dollar – short-term loans (payday alternative lending)
- Citizenship loan (checks made payable to Homeland Security)
- Risk based pricing
- Second chance auto loan refinance program
- Skip a pay loan options
- Credit builder loan programs
- Share secured credit cards
- Life strategy loans (vacation, burial, wedding, furniture)
- Parent-child credit card – (small balance allowing child to build credit but parent primarily responsible for repayment)
- First and last month rent loans
- Refund anticipation loans
- Micro business loans – under \$50,000

- **Small Dollar Lending**

The NCUA board established a program that allows federal credit unions to create short-term small loans that serve as an alternative to payday loans. The program allows federal credit unions to offer loans that allow borrowers to:

- Access funds between \$200 and \$1,000, provided they have been members of the credit union for at least one month.

- Pay affordable interest rates capped at 28 percent, a number that is a fraction of what predatory lenders charge, but high enough for credit unions to account for the higher risk associated with making this type of loan.
- Pay reasonable application fees that are capped at \$20 to help recoup the actual cost associated with processing the application. This is unlike many payday lenders, who use exorbitant application fees to make money and offset risk.
- Repayment terms from one to six months, which is longer than the payback period of most payday loans. And credit unions are prohibited from rolling over these loans or making more than one loan at a time (or three in any rolling six-month period) to a member, a practice that often allows borrowers to become overextended.

For more information on this loan program access [NCUA Regulatory Alert 10-RA-13](#) Final Rule - Part 701, Short-term, Small Amount Loans, and [NCUA Rules and Regulations Part 701.21c7iii](#). Also view OSCUI's [Small Dollar Lending](#) webinar which provides guidance and the criteria for the payday alternative type loan product.

Qualifying for the Low Income Designation

A credit union qualifies for the low income designation when a majority of its membership (50 percent + one member) meet the low income threshold defined in the NCUA Rules and Regulations. Generally low income members are defined as members whose income is at or below 80 percent of comparable median family income or median earnings for individuals in their geographic area, their state, or the nation. Members enrolled as students in a high school, college, university or vocational school are also considered low income. For the full definition refer to [Part 701.34 of the NCUA Rules and Regulations](#). Credit Unions seeking the low income designation should also become familiar with Chapter 3, Parts 1 & 2 of the NCUA [Chartering Manual](#) and the [Low-Income Designation Fact Sheet](#).

• Office of Consumer Protection's Automated Geocoding Tool

There are several ways to assess eligibility for the low income designation, but the easiest and most popular way is by running a credit union's AIRES share download through NCUA's Office of Consumer Protection automated geocoding database tool. In many cases such an assessment is conducted during the annual examination. Federal credit unions found to be eligible for the LID are notified in writing with instructions for how to officially request the designation. Through a cooperative effort between NCUA and the National Association of State Credit Union Supervisors, state regulators can elect to provide encrypted member geographic data to NCUA when uploading examinations. NCUA uses that confidential membership data solely to determine which federally insured state chartered credit unions (FISCU) are eligible for a low-income designation. NCUA provides a list of eligible FISCUs to state regulators on a quarterly basis.

If you feel your credit union qualifies as low income and want an assessment conducted, contact NCUA's [Office of Consumer Protection](#) (OCP) to request a LID assessment.

OCP will request the credit union submit an AIRES share download or other information so they may conduct the assessment. If the credit union qualifies OCP will immediately issue the low income designation to federal credit unions. State regulators have the sole authority to confer the low income designation for state chartered credit unions. In cases where OCP assesses a state chartered credit union's eligibility for the LID and determines it qualifies OCP will notify the state chartered credit union of their eligibility and direct them to their state regulator to officially request the low income designation.

- **Sampling Procedures**

Sampling is another method used to determine eligibility for the low income designation. [NCUA Rules and Regulations Section 701.34](#) allow a credit union to rely on a sample of membership income data drawn from loan files or member surveys provided the credit union can demonstrate the sample is a statistically valid, random sample. This rule eases the burden on credit unions seeking a LID that have lower-income members living in higher-income neighborhoods. It is an alternative approach for credit unions that do not qualify as low-income according to OCP's automated geocoding software.

The credit union must submit a narrative describing its sampling technique and evidence supporting the validity of the analysis (including the actual data set used in the analysis) to NCUA's [Office of Consumer Protection](#). The sample must be representative of the membership and have a minimum confidence level of 95% and a confidence interval of 5%. The credit union must draw the sample either entirely from loan files or entirely from a survey and must not combine a loan file review with a survey. The document below outlines NCUA's sampling method requirements:



- **Other Methods of Qualifying for the LID**

Credit unions may submit other information to NCUA to demonstrate they qualify for a low income credit union designation. For example, federal credit unions may provide actual member income from loan applications or surveys to demonstrate a majority of their membership is low income. Refer to [Part 701.34 of the NCUA Rules and Regulations](#) for guidance.

What if we Fall a Little Short of the Majority Threshold?

Don't give up! Credit unions falling a little short of the 50 percent plus one member requirement to obtain the LID should consider the following to help reach the minimum threshold:

- Ensure you have valid correct physical addresses for all members
- Ensure the AIRES download does not include closed accounts

- Convert PO Boxes to physical addresses (PO Box addresses are not considered in the LID assessment)
- Identify the full and part-time students attending high school, college, university or trade school as they automatically qualify as low income regardless of their address
- To attract more low income members, ensure you have products (e.g. small dollar loans), services, and office hours that meet their needs
- Consider expanding your field of membership to include lower income areas. The Office of Consumer Protection can provide guidance on expanding your field of membership

Resources

Serving low income members is no small task. It requires an understanding of the unique challenges this demographic faces, a solid business plan with appropriate measures to mitigate risk, and a suite of products and services geared toward the needs of lower income members. The LID is a significant recognition that provides special legislative benefits and regulatory relief to credit unions serving predominantly low income members. Refer to the resources and regulations below for guidance and more information on the LID.

- **NCUA Rules and Regulations Section 701.34**

[NCUA Regulation 701.34](#) outlines the eligibility rules for qualifying as a LID credit union, describes how to apply for the LID and outlines the benefits of the LID.

- **Low Income Designation Fact Sheet**

The [Low-Income Designation Fact Sheet](#) provides a summary of the requirements for and benefits of the LID.

- **Low Income Designation Webinars and Videos**

OSCUI offers many webinars and videos to the credit union community. [Click here](#) to access our complete portfolio of webinars and videos, and click on the links below for webinars and videos tailored to LID credit unions:

- [Benefits of Low Income Designation](#) webinar describes the benefits of the LID;
- [Strategic Uses of the Low Income Designation](#) webinar outlines strategies credit unions employ to meet the needs of their low income members;
- [Profiling Products and Services for Underserved Members](#) webinar provides an overview of products and services designed for underserved members;
- [Will Secondary Capital Work for You?](#) webinar outlines the benefits of secondary capital; and
- [Small Dollar Lending](#) webinar provides guidance and includes the criteria for offering a payday alternative type loan product with interest rates up to 28 percent.